UNITED NATIONS

Convention to Combat Desertification

Distr.
GENERAL

ICCD/COP(4)/2/Add.5 (B)
7 December 2000

ENGLISH ONLY

CONFERENCE OF THE PARTIES
Fourth session
Bonn, 11-22 December 2000
Item 6 (e) of the provisional agenda[1]

PROGRAMME AND BUDGET

(e) AUDITED FINANCIAL STATEMENTS FOR THE CONVENTION'S TRUST FUNDS IN 1999

Report of the United Nations Board of Auditors

Note by the secretariat

Addendum

1. Pursuant to paragraph 20 of the UNCCD financial rules (ICCD/COP(1)/11/Add.1, decision 2/COP.1, annex), the accounts and financial management of all funds governed by the present rules shall be subject to the internal and external audit process of the United Nation.

2. Attached herewith are the audited financial statements of the Global Mechanism (GM)[2] as at and for the year ended 31 December 1999 and as at 31 December 1998 and for the period 28 July to 31 December 1998 for consideration by the Conference of the Parties.

3. The report of the United Nations Board of Auditors on the financial and management issues of the Convention for the year ended 31 December 1999 is contained in ICCD/COP(4)/2/Add.5 (A).

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[1] ICCD/COP(4)/1.

[2] As received from the Global Mechanism and reproduced without formal editing by the UNCCD secretariat.

PRICEWATERHOUSECOOPERS

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1999 AND FOR THE PERIOD
28 JULY 1998 TO 31 DECEMBER 1998

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

The International Fund for Agricultural Development (IFAD)
as Administrators for the Global Mechanism of the UN Convention to
Combat Desertification

We have audited the financial statements of the Global Mechanism of the UN Convention to Combat Desertification (the Global Mechanism) as at and for the year ended 31 December 1999 and as at 31 December 1998 and for the period 28 July 1998 to 31 December 1998. These financial statements are the responsibility of the Global Mechanism's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Global Mechanism of the UN Convention to Combat Desertification at 31 December 1999 and 1998 and the results of its operations and its cash flows for the periods then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

Rome, 25 May 2000

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GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

Financial Statements
For the year ended 31 December 1999
and for the period 28 July 1998 to 31 December 1998

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The Notes and Appendices to the accompanying statements form an integral part of the Financial Statements.

GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION

STATEMENT OF REVENUE AND EXPENSES
For the year ended 31 December 1999 and the period ended
31 December 1998
(US Dollars)

	CBAA		VCAEA		SBCF		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
Revenue								
Contributions (Note 3)	725 687		6 000	127 171			731 687	127 171
Interest Income (Note 4)			38 298	6 561			38 298	6 561
Total Revenue	725 687	0	44 298	133 521	0	0	769 985	133 521
Administrative Expenses								
Staff Costs	375 672			71 575			375 672	71 575
External Auditor's Fees	5 365			4 000			5 365	4 000
Office Equipment & Maintenance	21 861						21 861	0
Hospitality	1 055						1 055	0
Duty Travel	119 805			16 483			119 805	16 483
Service Charge	79 000			11 047			79 000	11 047
Total Administrative Expenses	600 174	0	0	103 105	0	0	600 174	103 105
Operating Expenses								
Consultants	69 333		6 000				94 333	
Media Communication & Networking	27 023						27 023	0
Publications	10 159						10 159	0
Total Operating Expenses	125 515	0	6 000	0	0	0	131 515	0
Total Expenses	725 687	0	6 000	103 105	0	0	731 687	103 105
Net Revenue less Expenses	0	0	38 298	30 416	0	0	38 298	30 416

STATEMENT OF CHANGES IN ACCUMULATED SURPLUS
For the year ended 31 December 1999 and the period ended 31 December 1998
(US Dollars)

	CBAA		VCAEA		SBCF		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
Opening Balance			6 300		24 066		30 416	0
Net Revenue less Expenses			38 298	30 416			38 298	30 416
Accumulated Surplus	0	0	44 598	30 416	24 066	0	68 714	30 416
Transfer to/(from) SBCF Account (Note 2)			24 066	(24 066)	(24 066)	24 066		
Accumulated Surplus at 31 December 1999	0	0	68 714	6 300	0	24 066	68 714	30 416

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

BALANCE SHEET
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999				1998			
	CBAA	VCAEA	SRCF	Total	CBAA	VCAEA	SRCF	Total
Assets								
Cash	912 824	301 548		1 214 372		143 546	24 066	167 612
Contributions Receivable (Notes 6 and 7)		62 516		62 516		145 256		145 256
Interfund Receivable (Note 7)			2 500 000	2 500 000				
Interest Receivable (Note 6)			86 359	86 359		6 350		6 350
Total Assets	912 824	364 064	2 586 359	3 863 247	0	295 192	24 066	319 258
Liabilities, Deferred Revenue, Accumulated Surplus and Reserve								
Accrued Liabilities (Note 8)	159 904	6 000		165 904		43 546		43 546
Interfund Payables								
Deferred Revenue (Note 3)	491 633 261 287	291 350	2 500 000	491 633 3 052 637		245 256		245 256
Deferred Interest Income (Note 4)			86 359	86 359				
Accumulated Surplus								
Reserve - SRCF Account (Note 2)		68 714		68 714		6 350	24 066	6 350 24 066
Total Liabilities, Deferred Revenue, Accumulated Surplus and Reserve	912 824	364 064	2 586 359	3 863 247	0	295 192	24 066	319 258

STATEMENT OF CASH FLOWS
For the year ended 31 December 1999 and the period ended 31 December 1998
(US Dollars)

	1999	1998
Cash flows from Financing Activities		
Contributions to Core Budget Administration Account	986 974	
Contributions to VCAEA	134 834	227 171
Cash flows from Operating Activities		
Operating and Administrative Expenses Paid	(117 696)	(59 559)
Interest Income VCAEA	44 648	
Net Cash Provided by Operating Activities	**1 048 760**	**167 612**
Net Increase in Cash	**1 048 760**	**167 612**
Cash at beginning of the period	**167 612**	**0**
Cash at the end of the year	**1 216 372**	**167 612**
Reconciliation of net revenue less operating expenses to net cash provided by operating activities		
Net Revenue less Operating Expenses	38 298	30 416
Increase in Accrued Liabilities	122 358	43 546
Increase in Interfund Payables	491 633	
Increase in Deferred Revenue	2 807 341	245 296
Increase in Deferred Interest Income	86 359	
Decrease/(Increase) in VCAEA Interest Receivable	6 350	(6 350)
Increase in SRCF Interest Receivable	(86 359)	
Increase in Interfund Receivables	(2 500 000)	
Decrease/(Increase) in Contributions Receivable	82 780	(145 296)
	1 048 760	**167 612**

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

STATEMENT OF RESOURCES AVAILABLE FOR COMMITMENT
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999				1998			
	CBAA	**VCAEA**	**SRCF**	**Total**	**CBAA**	**VCAEA**	**SRCF**	**Total**
Cash	912 824	303 548		**1 216 372**		143 546	24 066	167 612
Contributions Receivable		62 516		**62 516**		145 296		145 296
Interfund Receivable			2 500 000	**2 500 000**				
Interest Receivable			86 359	**86 359**		6 350		6 350
	912 824	**366 064**	**2 586 359**	**3 865 247**	**0**	**295 192**	**24 066**	**319 258**
Less:								
Accrued Liabilities	(159 904)	(6 000)		(165 904)		(43 546)		(43 546)
Interfund Payables	(491 633)			(491633)				
	(651 537)	(6 000)	0	(657 537)	0	(43 546)	0	(43 546)
Resources Available (Note 2(g))	**261 287**	**360 064**	**2 586 359**	**3 207 710**	**0**	**251 646**	**24 066**	**275 712**
Less: Funds Committed not Accrued	(82 868)	(6 000)		(88 868)				
Uncommitted Resources Available (Note 2(g))	**178 419**	**354 064**	**2 586 359**	**3 118 842**				

Global Mechanism of the UN Convention to Combat Desertification
NOTES TO THE FINANCIAL STATEMENTS

Note 1: Brief Description of the Global Mechanism

The United Nations Convention to Combat Desertification (UNCCD) created the Global Mechanism as a means of mobilising resources to protect dryland areas. At the First Conference of the Parties of the UNCCD held in October 1997, IFAD was selected to house the Global Mechanism by a ministerial-level assembly of over 113 countries that had ratified the Convention. The Global Mechanism has a Collaborative Institutional Arrangement to support it, involving UNDP, IFAD and the World Bank. The Managing Director of the Global Mechanism reports directly to the President of IFAD.

The Global Mechanism aims to mobilise funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, sub-regional and regional Action Plans. In addition, the Global Mechanism is involved in partnership building, establishing broad contacts among international organisations, the NGO community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the Global Mechanism is developing a database, collecting and managing data on desertification and "matching" resource needs and resource availability. Part of this involves accessing new and innovative sources of funds and making them available for Convention implementation.

Note 2: Summary of Significant Accounting Policies

(a) Basis of Accounting

The Global Mechanism recognises revenue and expenses, in accordance with International Accounting Standards, as they occur (and not as cash is received or paid) and reported in the period to which they relate. The excess of revenue over expenses is transferred to the Accumulated Surplus, including interest except that which is restricted by donor agreements.

The use of funds is restricted in accordance with the individual agreements with Donors. Contributions from the UNCCD have been recorded in the Core Budget Administration Account (CBAA). Voluntary contributions from Donors have been recorded in the Voluntary Contributions Administrative Expenses Account (VCAEA). The TAG 447 contribution from IFAD is recorded in the Special Resources for CCD Finance (SRCF) Account.

(b) Administration and Operating Expenses, including Service Charge

The President's Bulletin - Accounts of the Global Mechanism (GM) of 28 September 1999, defines the use of funds in the following way: the CBAA is used for administrative costs of the GM such as staff and office costs. It can also be used for operating costs directly relating to the GM such as a) employment of consultants to prepare action plans; b) marketing functions of the GM; and c) organisation of financing conference.

The VCAE can be used for both administrative and operating costs, but in practice will be used to fund initial development of projects.

The SRCF is used to provide financing assistance for development programmes.

In 1999 operating expenses have been primarily financed from the contributions received from UNCCD, as permitted by the terms of the related agreement.

The service charge has been charged to the CBAA in accordance with IFAD's rules and regulations.

(c) Donor Contributions

Contributions are recorded in Receivables and as Resources Available on the date of receipt of formal communication from the Donor or actual receipt of funds, whichever occurs earlier. Contributions received for which no expenditures have yet been incurred are deferred until future periods to be matched against the related costs. Contributions are subsequently recorded as Revenues in the period in which the related expenditures occur.

(d) Translation and Conversion of Currencies

(i) IFAD, on behalf of the Global Mechanism, conducts its operations in several currencies, and at the present time maintains its accounting records in United States Dollars. The Financial Statements are expressed in United States Dollars solely for the purpose of summarising the financial position.

(ii) The Global Mechanism has translated all items in its Balance Sheet at market rates of exchange at year-end.

(iii) Revenue and expense items in currencies other than the United States Dollar have been recorded at the rates of exchange ruling when the transaction occurred.

(iv) The exchange adjustments arising from the translation of assets and liabilities in currencies other than the United States Dollar are credited or charged to the Statement of Revenue and Expenses in line with the requirements of International Accounting Standard (IAS) No.21 (revised).

The movements in the foreign exchange rate account is explained as follows:

	1999	1998
Opening balance at 1 January	0	0
Exchange movements for the year on:		
Contributions Receivable	(9 946)	
Deferred Revenue	9 946	
Closing balance at 31 December	0	0

(e) Provisions

Provisions are established when the Global Mechanism has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service separation entitlements as a result of services rendered by employees up to the balance sheet date.

(f) Statement of Cash Flows

The Statement of Cash Flows has been prepared in accordance with International Accounting Standard (IAS) No. 7 (revised). For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(g) Resources available for Commitment

Resources available for commitment are those resources that have been contributed by Donors and others or have been derived, or are to be derived, from operations. Uncommitted resources available are the aforementioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes, such as ear-marked workshops.

In practice, Resources Available may be defined as cash, accrued interest and liabilities, amounts receivable from Donors, and balances owed to and from IFAD and other funds administered by IFAD.

Note 3: Statement of Contributions

Donor	Currency	Local Currency	USD Equivalent	Recognised Revnue	Deferred Revenue	Transfer (from)/to SRCF	Balance Available
Core Budget Administrative Account							
UNCCD	USD	986 974	986 974	725 687	261 287		261 287
Balance at 31 December 1999		**986 794**	**986 974**	**725 687**	**261 287**		**261 287**
Balance at 31 December 1998			**0**	**0**	**0**	**0**	**0**
Voluntary Contributions Administrative Expenses Account							
Germany	USD	100 000	100 000		100 000		100 000
Sweden						24 066	24 066
Switzerland	CHF	200 000	135 350		135 350		135 350
Portugal	USD	50 000	50 000		50 000		50 000
Islamic Development Bank	USD	12 000	12 000	6 000	6 000		6 000
Balance at 31 December 1999			**297 350**	**6 000**	**291 350**	**24 066**[1]	**315 416**
Balance at 31 December 1998			**372 467**	**127 171**[2]	**245 296**	**(24 066)**	**245 296**
Special Resources for the CCD Finance Account							
IFAD TAG 447	USD	2 500 000	2 500 000		2 500 000		2 500 000
Sweden	USD	24 066	24 066			(24 066)	
Balance at 31 December 1999			**2 524 066**		**2 500 000**	**(24 066)**	**2 500 000**
Balance at 31 December 1998			**0**	**0**	**0**	**24 066**	**24 066**

[1] In accordance with the approval given by Sida on 23 March 2000, the remainder of the Swedish contribution was transferred form the SRCF account to the VCAE account.

[2] In 1998 recognised revenue related entirely to the Swedish contribution.

Note 4: Interest Income

Until February 1999 the funds of the Global Mechanism were pooled with the Supplementary Funds administered by IFAD and invested in accordance with IFAD's investment policy. Investment income was allocated to the Fund on the basis of the related proportion of the underlying pooled assets.

On 1 February 1999, the Global Mechanism opened its own USD bank account where resources are held pending utilisation. Funds of the Global Mechanism previously held in IFAD's Supplementary Funds were transferred to this account.

The average rate of return on the funds of the Global Mechanism in 1999 was 4.93 percent (1998: 5.3%).

Interest is recognised in the statement of Revenue and Expenses as earned except to the extent that it is restricted by donor agreements.

Note 5: Staff Costs and Benefits

The Global Mechanism had four employees as at 31 December 1999 (31 December 1998: 1 employee). These employees are on IFAD's payroll and are therefore part of the benefit system offered by IFAD. These benefits include the participation in the United Nations Joint Staff Pension Fund and in the After Service Medical Coverage administered by FAO. For further information regarding these benefits, refer to the Financial Statements of IFAD.

IFAD charges the Global Mechanism for the full costs incurred on behalf of the employees of the Global Mechanism.

Note 6: Cash and Interest Receivable

Contributions receivable into the SRCF Account and interest receivable relate to the liquid resources held, and matured thereon, respectively, by IFAD (TAG 447).

Note 7: Contributions Receivable

Donor	Local Currency		Contribution US Dollars Equivalent	US Dollars: Cumulative To Date Received	US Dollars: Receivable
Core Budget Administrative Expenses Accounts					
UNCCD	USD	986 974	986 974	986 974	0
Balance at 31 December 1999			**986 974**	**986 974**	**0**
Balance at 31 December 1999			**0**	**0**	**0**
Voluntary Contributions Administrative Expenses Account					
Germany	USD	100 000	100 000	100 000	
Sweden	SEK	1 000 000	127 171	127 171	
Switzerland[1]	CHF	200 000	135 350	72 834	62 516
Portugal	USD	50 000	50 000	50 000	
Islamic Development Bank	USD	12 000	12 000	12 000	
Balance at 31 December 1999			**424 521**	**362 005**	**62 516**
Balance at 31 December 1999			**372 467**	**227 171**	**145 296**
SRCF					
IFAD TAG 447	USD	2 500 000	2 500 000	2 500 000	0
Balance at 31 December 1999			**2 500 000**	**2 500 000**[2]	**0**
Balance at 31 December 1999			**0**	**0**	**0**

1 The second instalment of CHF 100,000 was received in January 2000.

2 The IFAC grant to the Global Mechanism was approved in April 1999, however, the funds have not been transferred to the GM bank account and the amount is reflected as an Interfund receivable.

Note 8: Accrued Liabilities

This comprises the following balances:

	1999			1998		
	CBAA	**VCAEA**	**Total**	**CBAA**	**VCAEA**	Total
Staff salaries and benefits	25 236		25 236		27 449	27 449
Short-term staff accruals	5 006		5 006		1 050	1050
Consultants	84 084	6 000	90 084			0
Audit Fee	3 385		3 385		4 000	4 000
Service Charge			0		11 047	11 047
Communications	8 932		8 932			0
Staff travel	16 848		16 848			0
Office equipment Rental	11 134		11 134			0
Sundry	5 279		5 279			0
Total	**159 904**	**6 000**	**165 904**	**0**	**43 546**	**43 546**

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

Appendix A

STATEMENT OF THE CORE BUDGET ADMINISTRATION ACCOUNT
As at 31 December 1999 and 31 December 1998
(US Dollars)

		1999	1998
Total Amount of Contribution		**986 974**	**0**
	This Year	**Cumulative**	
Expenditures			
Administrative Expenses			
Staff Costs	(375 072)	(375 072)	
External Auditor's Fees	(3 385)	(3 385)	
Office Equipment and Maintenance	(21 861)	(21 861)	
Hospitality	(1055)	(1055)	
Duty Travel	(119 801)	(119 801)	
Service Charge	(79 000)	(79 000)	
	(600174)	(600174)	
Operational Expenses			
Consultants Fees	(88 333)	(88 333)	
Media Communications and Networking	(27 021)	(27 021)	
Publications	(10159)	(10159)	
	(125 513)	(125 513)	
Total amount expensed in the period	**(725 687)**	**(725 687)**	**0**
Less Funds Committed not Accrued		(82 868)	
Total Amount Available for Commitment		**178 419**	**0**

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

Appendix B

STATEMENT OF GERMAN CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999	1998
Total Amount of Contribution (received 28 July 1998)	**100 000**	**100 000**
Expenditures	0	0
Total amount expensed in the period	0	0
Total Amount Available for Commitment	**100 000**	**100 000**

NB: Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

Appendix C

STATEMENT OF SWEDISH CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999	1998
Total Amount of Contribution (received 15 January 1998)	**127 171**	**127 171**

	This Year	Cumulative	This Period	Cumulative
Expenditures				
Programme Officer		(70 421)	(70 421)	(70 421)
Duty Travel		(16 483)	(16 483)	(16 483)
Temporary Support		(1 154)	(1 154)	(1 154)
Audit Fees		(4 000)	(4 000)	(4 000)
IFAD Service Charge		(11 047)	(11 047)	(11 047)
Total amount committed in the period	**0**	**(103 105)**	**(103 105)**	**(103 105)**
Unspent Balance transferred to the SRCF Account on 31 December 1998 and subsequently transferred to the VCAE Account on 31 December 1999		**24 066**		**24 066**

NB: Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

Appendix D

STATEMENT OF SWISS CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999	1998
Total Amount of Contribution (January 1999 and January 2000)	135 350	145 296
Expenditures	0	0
Total amount expensed in the period	0	0
Total Amount Available for Commitment	**135 350**	**145 296**

[1] Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.

[2] The balance of the contribution as at 31 December 1999 reflects foreign exchange rate movements.

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

Appendix E

STATEMENT OF PORTUGESE CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999	1998
Total Amount of Contribution (received 26 March 1999)	50 000	0
Expenditures	0	0
Total amount expensed in the period	0	0
Total Amount Available for Commitment	50 000	0

NB: Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.

Appendix F

GLOBAL MECHANISM OF THE UN CONVENTION TO COMBAT DESERTIFICATION

STATEMENT OF ISLAMIC DEVELOPMENT BANK CONTRIBUTION
As at 31 December 1999 and 31 December 1998
(US Dollars)

	1999	1998
Total Amount of Contribution (received 7 September 1999)	12 000	0
	This Year	**Cumulative**	
Expenditures	(6 000)	(6 000)	0
Total amount expensed in the period	**(6 000)**	**(6 000)**	**0**
Less Funds Committed not Accrued		(6 000)	
Total Amount Available for Commitment		**0**	**0**

NB. Interest earned by the Global Mechanism on these funds is reflected in the pooled funds of the VCAE Account.